

REPORT ON INVESTMENT ACTIVITY

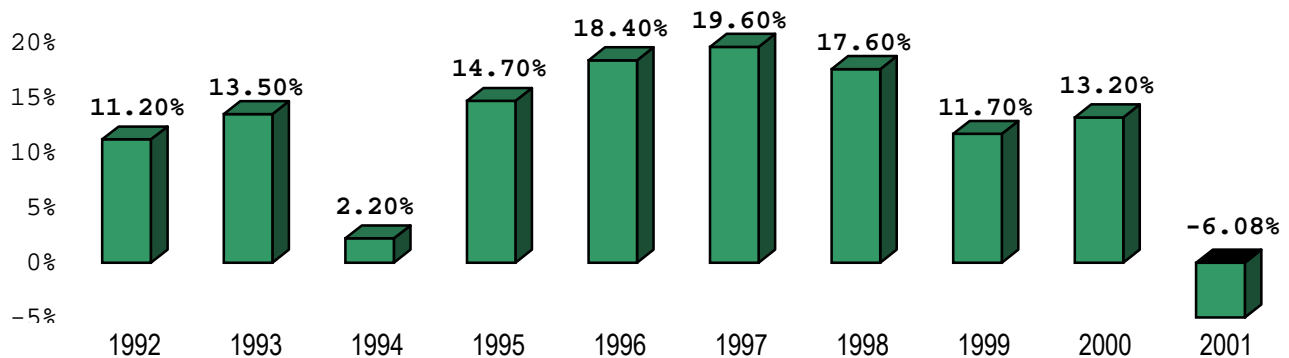
Prepared by Robert M. Maynard, Chief Investment Officer

After one of the best almost decade-long runs of history, the world equity markets had one of their worst years in history. U.S. stock markets were down 15% for the fiscal year, their worst single fiscal year performance since 1970 (even the 1973-1974 bear market did not have an individual fiscal year this bad). International equity markets were down 26%, their worst fiscal year performance since fiscal year 1974.

As a result, the PERSI fund ended the year down 6.08%; its worst annual performance since fiscal years 1973 and 1974 (when the PERSI returns were -6.8% and -16.0%, respectively). The ending value of the fund was \$6,726,758,246, a decrease of \$512 million during the fiscal year (\$435 million due to the markets, and \$77 million due to negative cash flow because of gain sharing).

Still, over the past five years, the PERSI portfolio has risen at an annual rate of 10.8%, still well ahead of the actuarial assumed rate of 8%. And, even after this year's decline, the fund has increased almost \$3 billion in value over that five-year period. This allowed PERSI in the past year to increase benefits, send a 13th check to retirees, grant a contribution holiday to employers, and set up and fund 401(k) accounts for active members with an average of \$1,000 for each member.

Even after those actions coupled with the market decline, PERSI still is almost fully funded. The Board retained a "surplus" in the form of a funding excess to protect the fund from "normal" bad markets. This surplus was sufficient to absorb almost all of the year's market decline. After some actuarial losses due to such events as higher than expected salary increases, PERSI still was over 97% funded, well ahead of the funding levels expected only a few years ago. Thus, this year's market decline came after a long and successful run in PERSI returns. Past individual fiscal year returns have been as follows:



PERSI's returns relative to its peers also continued to rank well into the top third over most of the past decade. Our rankings in the TUCS public fund universe, one of the most widely used universes and the one used by our outside performance measurement advisor, have been as follows:

PERCENTILE RANKINGS
WILSHIRE CO-OP PUBLIC PLAN SPONSOR DATABASE
June 30, 2001
 (1 Highest, 100 Lowest)

	1 Year	2 Years	3 Years	4 Years	5 Years
PERSI	60	29	25	29	34

Nonetheless, last year represented the types of markets that can occur randomly over 10-15 year periods. The declines experienced by the PERSI fund over the past year were severe.

It could, and should, have been worse. Given the terrible equity markets, there were a number of mitigating features to our performance during the year. Since we have no control over the markets, we would like to dwell on the things we do have control over: our funding policy and the structure and reaction of the portfolio given the market environment.

First, the past year proved the wisdom of the Board's policy of retaining at least a "one standard deviation reserve." This represented an amount of money that would protect the fund from "normal" bad markets – the types of bad markets that would be expected to occur approximately once every six years. That reserve absorbed nearly all of the market decline in the worst equity market in over a quarter century. It looks like a one standard deviation reserve is an appropriate level for the future (if and when we get to build it back up to that level). It almost looks like we predicted exactly this market decline. And, if we hadn't had a reserve, our funding level would have dropped into the mid 80% level, and contribution rates and COLAs would clearly have been in jeopardy.

Second, given our basic asset allocation of 54% U.S. equities, 15% international equities, and 31% fixed income, we should have expected to be down around -8.9%. Instead, our losses of -6.1% were almost 3% better than we should have expected, or about \$200 million "saved" from simply indexing our base asset allocation to the passive indices (the Wilshire 5000, the FT World X US, and the Lehman Aggregate, which was up 11.4% for the fiscal year).

Of some interest in this regard is our performance relative to our strategic asset allocation (or "policy benchmark"). Our policy of 54% U.S. equities, 15% international equities, and 31% fixed income (30% bonds, 1% cash) would have placed us well into the lower reaches of the TUCs universe over the past few years if we had simply matched market returns. But the relative outperformance of the fund had a dramatic impact on our actual placement.

RANKINGS IN THE TUCS PUBLIC FUND UNIVERSE: POLICY VS ACTUAL

June 30, 2001

Percentile Rankings over Period
(1 is highest, 100 is lowest)

	1 Year	2 Years	3 Years	4 Years	5 Years
Policy Index	88	96	82	52	57
Actual	60	29	25	29	34

Thus, for example, if we had simply produced index returns over the past two years, we would have ranked almost at the complete bottom of the Public Fund Universe – in the lowest 4%. Instead, our actual returns placed us well into the top third of public funds.

This improvement over passive indexing occurred in each of PERSI's major investment segments. PERSI's U.S. equities lost "only" 12.7%, compared to the general U.S. stock market loss of 15.3% -- an outperformance of 2.6%. PERSI's international equities lost 22.9%, compared to the general international equity loss of 25.8% -- an outperformance of 2.9%. PERSI's fixed income gained 12.2% compared to the U.S. fixed income market's general gain of 11.4% -- an outperformance of .8%. And, the star relative performer for the year, PERSI's global equities lost only 7.6% compared to the general losses in the world equity market of -22.5% -- an outperformance of almost 15%.

Third, and from our perspective the most important factor, the past year provided a realistic "stress test" for the overall portfolio and each of its components. We do not try to time the markets. Instead, we take as a given the general market environment, and when markets are good, we hope to participate fully, and when markets are poor, we hope to "cut off the downside" and suffer less than we would generally expect. For most of the 1990's, it was clear that we could participate fully in good markets. Both our absolute and relative returns to our peers were, as prior annual reports demonstrated, excellent during the good times of the mid to late 1990's.

The unanswered question was whether the higher-than-expected returns were being achieved because of incurring higher-than-expected risk - that the price to be paid for such good performance was a greater-than-market loss when times were bad. While we believed that the portfolio was structured to avoid such a result, until it was tested, we could not be sure.

Thus, last year provided the first test of the portfolio. And, as our results showed, the portfolio came through with "flying colors." Not only did the single-year returns show each segment and the total portfolio doing better than expected, but the longer-term returns also showed outperformance over a complete market cycle.

Taking the last five years, the U.S. equity market has returned 13.0%, the global equity market has returned 7.4%, the international equity market has returned 2.4%, and the U.S. bond market has returned 7.5%. Our returns were 12.9% for U.S. equities, 14.5% for global equities, 4.9% for international equities, and 8.2% annually. Again, taking our underlying long-term allocation of 55% U.S. equities, 15% international equities, and 30% fixed income, our annualized performance would have been expected to be around 9.8%. Instead, our performance was 10.8%, over 1% per year higher, or 7.5% cumulatively over 5 years.

And, over the trailing four and five year periods, each and every component of the PERSI portfolio, both collectively (U.S. equity, international equity, global equity, and fixed income), and each manager account individually, have effectively equaled or exceeded their benchmarks. (The potential exception is Columbus Circle, which has underperformed the general Russell 2000 index but has exceeded the Russell 2000 growth index, which more accurately reflects their investment approach and their place in our overall portfolio).

From my perspective, this is quite remarkable. We would have expected at least one of our general policies, and a couple of manager accounts, to show serious weaknesses after a widespread worldwide equity market decline of the magnitude we experienced last year. We certainly would have predicted a substantial portion of the long-term individual manager accounts to be at least slightly behind their benchmarks for the long term. This simply has not occurred.

In addition, we were quite pleased that all of our managers stuck to their styles and approaches, even when they were not (or are not currently) working out. Mountain Pacific, for example, did not budge from their long-term approach, even when it put them far behind the benchmark last year. They stayed on course and rebounded tremendously this year - again, they are the top-performing manager for the year and beat their benchmark by almost 25%. The same can be said for Brandes, Tukman, and Scudder. And, growth managers who are currently suffering, particularly Barings and Columbus Circle, are staying true to their style even though their style is very much out of favor.

As for results for the last fiscal year, as stated earlier in absolute terms, they were ugly, while relatively, our results were better than expected. The markets generally continued their schizophrenic nature with value and growth showing hugely divergent performance. The difference was that growth was down while value was up with U.S. growth stocks down around 30% for the year, U.S. large cap value stocks up around 8%, and U.S. mid and small cap value stocks up over 25% for the year.

In that environment, the managers performed as, or better than, expected. Value or "GARP" (Growth at a Reasonable Price) type managers had good years. Our leading manager for the year was Mountain Pacific with returns of 25.8%, followed by Brandes (24.9%), Lend Lease REIT (19.4%), and, Tukman (11.7%). All of these managers were trailing the pack this time last year.

On the other hand, all of the growth-oriented managers who were our previous best absolute and relative performers had miserable years. Barings and Columbus Circle, last year our number 1 and number 2 performers, both absolutely and relatively for both short and long term, lost 35.2% and 30%, respectively.

Scudder (-7.1%) and Zesiger (-14.8%) both beat their benchmarks. Scudder's value style paid off over the past year. Zesiger's achievement was exemplary given their general small cap growth and emerging market style.

International managers all suffered with the decline of -25.8% in the developed markets and -27.5% in the emerging markets. Over the past year, Schroders developed market account (-20.8%) and the Genesis Emerging Markets account (-12.2%) were the best relative performers for their styles. After trailing 3, 4, and 5 year time periods, all international managers are

ahead of their benchmarks.

All of PERSI's bond accounts beat the Lehman Aggregate return of 11.4%, led by Idaho Mortgages (13.2%), TIPS (13.1%), BEA Fixed (11.8%), State Street (11.7%), Barings (11.6%), and DBF MBS (11.5%).

The major strategic moves of the past few years, namely the purchase of TIPS and the addition of an REIT portfolio, both worked out handsomely over the past year. TIPS were the best performing segment of the bond market (at 13.1%), and REIT stocks had a 19.4% return for the year.

More detailed information on performance for each component of PERSI's portfolio can be found on pages 42-43.

All in all, a year to remember with mixed feelings. We all knew the good times would not go on forever. And they did not. But, given the bad markets, the portfolio reacted much better than at least we expected, and probably as well as, or better than, we could have hoped.

For the numbers presented, the source of the above-disclosed data is the Mellon Trust Services Reporting System, which follows AIMR's Performance Presentation Standards.

Investment Summary for the Year Ended June 30, 2001

Types of Investment	<u>Market Value</u>	<u>Percent of Total Market Value</u>
Short-term Investments	\$ 181,761,612	2.6%
Fixed Income		
Domestic Bonds	1,642,249,607	23.9%
International Bonds	26,911,853	0.4%
Mortgages	<u>278,597,454</u>	<u>4.0%</u>
Total Fixed Income	1,947,758,914	28.3%
Common Stock		
Domestic Equity	3,013,011,899	43.7%
International Equity	<u>1,503,712,614</u>	<u>21.9%</u>
Total Common Stock	4,516,724,513	65.6%
Private Equity	116,177,197	1.7%
Real Estate	38,486,190	0.6%
Mutual Fund Holdings in 401(k) Plan	<u>79,235,469</u>	<u>1.2%</u>
Total Investments	<u>\$ 6,880,143,895</u>	<u>100.0%</u>

**Schedule of Investments by Account (including interest and dividends receivable)
As of June 30, 2001**

Baring Asset Management, Inc. (Equity)	\$ 178,042,344
Baring Asset Management, Inc. (Fixed Income)	227,243,860
Brandes Investment Partners, LP	296,666,225
Cash in Short-Term Investment Pool at Mellon	1,070,010
Chisholm Management IV, LP	19,792,939
Columbus Circle Investors, Inc.	288,619,451
Credit Suisse Asset Management	201,750,513
D.B. Fitzpatrick & Co., Inc. - Idaho Mortgages	282,536,766
D.B. Fitzpatrick & Co., Inc.	98,623,432
Furman Selz Investments	15,061,002
Galen Associates	20,007,071
Genesis Asset Managers, Ltd.	68,357,293
Goense Bounds & Partners, LP	3,071,753
Harvest Partners, Inc.	17,632,858
Ida-West	3,275,000
Lend Lease Rosen	148,525,122
Littlejohn II, LP	4,073,521
McCowan DeLeeuw & Co.	8,606,061
Mellon Capital Management, R2000 Small Cap	122,665,288
Mellon Capital Management, S&P 500 Large Cap	1,327,739,129
Mellon Capital Management, Mid Cap Completion	151,047,920
Mellon Capital Management, International Stock Index	270,363,273
Mellon-Dreyfus (Mutual Fund Holdings Choice Plan Alternative Funds)	273,452
MFS Institutional Advisors, Inc.	222,253,663
Mountain Pacific Investment Advisors, Inc.	260,025,079
Oaktree Capital Management	4,284,730
Pareto Partners	7,920,179
Providence Equity Partners III, LLP	15,976,481
Prudential Investments	38,456,701
Rowe Price International, Inc.	174,793,280
Saugatuck Capital Company	8,503,892
Schroder Capital Management International, Inc. (EAFE)	170,337,839
Schroder Capital Management International, Inc. (Emerging Markets)	63,875,381
Scudder Kemper Investments, Inc.	206,012,235
Scudder Kemper Investments, Inc. (Mutual Fund Holdings 401(k) Plan)	23,719,926
State Street Global Advisors	417,036,768
State Street Global Advisors (TIPS)	689,878,381
State Street Global Advisors (Sick Leave Insurance Reserve)	123,781,970
TCW London International, Ltd.	194,690,538
Tukman Capital Management, Inc.	263,133,559
Zesiger Capital Group	191,773,258
Zesiger Capital Group (Private Equity)	43,035,454
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Total Market Value, Including Investment Receivables and Payables	\$6,874,533,597
Add: Investments Purchased	693,818,912
Less: Investments Sold	(654,773,569)
Less: Interest and Dividends Receivable	(33,435,045)
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Total Market Value, Net of Investment Receivables and Payables	<u>\$6,880,143,895</u>

Investment Results (Pension Funds only)

Managers	Benchmark	Total Market Value (millions)	% of Total Fund	Investment Performance for Periods Ending			
				Fiscal Year '01	1 Yr	3 Yrs	5 Yrs
U.S. Equity							
Columbus Circle Small Cap	Russell 2000	\$288.6	4.3%	(30.4)	(30.4)	0.9	7.8
MCM R2000 Small Cap		122.7	1.8	3.1	3.1	-	-
MCM S&P 500 Large Cap	S&P 500	1,327.7	19.7	(14.6)	(14.6)	4.2	14.7
MCM Mid Cap Completion	Wilshire 4500	151.1	2.3	(26.0)	(26.0)	2.0	9.2
MFS Asset Management	Wilshire 5000	222.3	3.3	(18.8)	(18.8)	4.3	13.3
Mountain Pacific	Russell 2500	260.0	3.9	25.1	25.1	6.4	15.0
Tukman Capital Management	S&P 500	263.1	3.9	11.3	11.3	8.9	17.4
Total U.S. Publicly Traded Equity		2,635.5	39.2	(12.7)	(12.7)	4.5	13.3
Private Equity							
Saugatuck		8.5	0.1	(15.8)	(15.8)	(14.9)	(2.4)
Ida-West		3.3	0.1	56.0	56.0	17.6	-
Galen III		20.0	0.3	(38.7)	(38.7)	(0.4)	-
Harvest Partners		17.6	0.3	16.4	16.4	2.0	-
Furman Selz		15.0	0.2	(11.1)	(11.1)	2.4	-
McCown DeLeeuw		8.6	0.1	(40.4)	(40.4)	(15.5)	-
Providence Equity Partners III		16.0	0.2	(11.5)	(11.5)	-	-
Chisholm Management IV		19.8	0.3	26.7	26.7	-	-
Littlejohn II		4.1	0.1	12.4	12.4	-	-
Oaktree Capital Management		4.3	0.1	(18.6)	(18.6)	-	-
Goense Bounds & Partners		3.1	0.0	(18.9)	(18.9)	-	-
Zesiger Private Equity		43.0	0.6	-	-	-	-
Total Private Equity		163.3	2.4	(13.8)	(13.8)	(3.2)	4.3
Real Estate							
	NCREIF						
Lend Lease - Public R/E		148.5	2.2	19.6	19.6	14.6	15.3
Prudential		38.5	0.6	1.8	1.8	8.7	12.6
Total Real Estate		187.0	2.8	16.4	16.4	14.4	15.3
BENCHMARK	NCREIF			12.0	12.0	12.6	12.7
Total U.S. Equity	Wilshire 5000	2,985.8	44.4	(11.5)	(11.5)	4.7	13.0
Global Equity							
Baring International	Wilshire 5000	178.0	2.6	(36.1)	(36.1)	(2.8)	7.7
Brandes Investment Partners	Wilshire 5000	296.7	4.4	24.5	24.5	16.8	20.9
Zurich Scudder	Wilshire 5000	206.0	3.1	(7.8)	(7.8)	4.4	11.6
Zesiger	Wilshire 5000	191.8	2.9	(12.1)	(12.1)	19.5	15.0
Total Global Equity		872.5	13.0	(8.5)	(8.5)	9.7	14.2
Total U.S./Global Equity	Wilshire 5000	3,858.3	57.4	(10.9)	(10.9)	5.8	13.3
BENCHMARK	Wilshire 5000			(15.4)	(15.4)	3.5	13.1
International Equity							
Genesis Investments	Emerging Markets	68.4	1.0	(12.7)	(12.7)	2.1	(3.3)
Schroder Capital	Emerging Markets	63.9	1.0	(29.6)	(29.6)	(0.9)	(5.2)
MCM International	EAFE Net	270.3	4.0	(23.3)	(23.3)	(1.6)	4.5
Rowe Price	EAFE Net	174.8	2.6	(25.6)	(25.6)	(0.4)	4.2
Schroder Capital	EAFE Net	170.3	2.5	(20.8)	(20.8)	1.3	4.4

Investment Results (Pension Funds only)

Managers	Benchmark	Total Market Value (millions)	% of Total Fund	Investment Performance for Periods Ending			
				Fiscal Year '01	1 Yr	3 Yrs*	5 Yrs*
TCW (London) Asset Mgmt ¹	EAFE Net	194.7	2.9	(28.7)	(28.7)	3.4	7.1
Total Int'l Equity	EAFE Net	942.4	14.0	(24.4)	(24.4)	0.7	3.3
Total Int'l Equity (Hedged) ²	EAFE Net	950.3	14.1	(23.0)	(23.0)	1.7	4.8
BENCHMARK EAFE Index Net				(23.6)	(23.6)	(1.2)	2.9
Total Equity	Wilshire 5000	<u>\$4,808.6</u>	<u>71.5%</u>	<u>(13.5)</u>	<u>(13.5)</u>	<u>5.0</u>	<u>11.5</u>
BENCHMARK	Wilshire 5000			(15.4)	(15.4)	3.5	13.1
U.S. Fixed Income							
DBF & Co. Fixed	LB Mortgage	\$98.6	1.5%	11.2	11.2	6.5	7.9
DBF & Co. Idaho Mortgages ³	LB Mortgage	282.6	4.2	13.2	13.2	7.7	8.6
State Street Global Adv	LB Gov't/Corp	417.0	6.2	11.6	11.6	6.0	7.4
State Street Global Adv-TIPS		<u>689.9</u>	<u>10.2</u>	<u>13.1</u>	<u>13.1</u>	<u>-</u>	<u>-</u>
Total U.S. Fixed Income	LB Aggregate	1,488.1	22.1	12.5	12.5	6.9	8.0
Global Fixed Income							
BEA Associates	LB Aggregate	201.8	3.0	11.8	11.8	6.5	8.0
Baring International	LB Aggregate	<u>227.2</u>	<u>3.4</u>	<u>11.4</u>	<u>11.4</u>	<u>5.7</u>	<u>8.8</u>
Total Global Fixed Income		429.0	6.4	11.6	11.6	6.1	8.4
Total Fixed Income	LB Aggregate	<u>\$1,917.1</u>	<u>28.5%</u>	<u>12.3</u>	<u>12.3</u>	<u>6.7</u>	<u>8.2</u>
BENCHMARK	LB Aggregate			11.2	11.2	6.3	7.5
Other							
Unallocated Cash		1.0	0.0	9.6	9.6	7.3	6.9
Combined Total		<u>\$6,726.7</u>	<u>100.0%</u>	<u>(6.1)</u>	<u>(6.1)</u>	<u>5.9</u>	<u>10.8</u>
Add: Mutual Fund Holdings in 401(k) Plan		23.8					
Sick Leave Fixed Income Investments		55.0					
Sick Leave Equity Securities		68.8					
Investments Purchased		693.9					
Less: Interest and Dividends Receivable		(33.4)					
Investments Sold		<u>(654.7)</u>					
Total Pension Fund Investments							
Net of Receivables		<u>\$6,880.1</u>					

* Rates of return are annualized

¹ Formerly Dillon Read International

² Includes Pareto Partners currency overlay account

³ Includes DBF & Co. Real Estate - This account was Miller Anderson until 2/89.

Prepared using a time-weighted rate of return in accordance with AIMR's Performance Presentation Standards.

Schedule of Investment Income for the Last Six Years

Year	Interest	Dividends	Gains & Losses*	Real Estate	Total
2001	\$165,528,342	\$63,317,212	(\$669,224,044)	(\$39,526)	(\$440,418,016)
2000	153,008,941	71,583,903	628,751,044	936,014	854,279,902
1999	123,117,458	60,284,061	475,499,565	2,258,053	661,159,137
1998	106,511,929	53,007,558	683,857,465	3,649,009	847,025,961
1997	94,242,982	46,497,417	627,809,854	4,577,480	773,127,733
1996	88,296,778	42,272,091	460,864,748	3,771,856	595,205,473

*Includes realized and unrealized gains and losses.

List of Largest Assets Held

Largest Bond Holdings (by Market Value) June 30, 2001

	Par	Bonds		Market Value
1	\$ 306,664,210	U.S. TREASURY INFLATION INDEX NT	4.250% 01/15/2010 DD 01/15/00	\$ 324,392,468
2	238,401,406	U.S. TREASURY INFLATION INDEX BD	3.875% 04/15/2029 DD 04/15/98	255,237,313
3	53,926,000	U.S. TREASURY INFLATION INDEX NT	3.875% 01/15/2009 DD 01/15/99	55,695,312
4	43,793,600	U.S. TREAS-CPI	3.625% 01/15/2008 DD 01/15/98	44,778,956
5	15,650,000	COMMIT TO PUR FNMA SF MTG	8.000% 07/01/2031	16,163,477
6	15,530,000	U.S. TREASURY NOTES	4.625% 05/15/2006 DD 05/15/01	15,316,463
7	13,448,911	FNMA POOL #0323402	6.500% 10/01/2028 DD 10/01/98	13,259,820
8	12,145,000	U.S. TREASURY BONDS	6.125% 08/15/2029 DD 08/15/99	12,579,548
9	9,810,000	MEXICO UTD MEX STS BONDS	10.375% 02/17/2009 USD1000	10,950,903
10	10,400,000	U.S. TREASURY BONDS	6.250% 05/15/2030 DD 11/15/99	10,634,468

Largest Stock Holdings (by Market Value) June 30, 2001

	Shares	Stock	Market Value
1	1,731,085	GENERAL ELEC CO.	\$ 84,390,394
2	792,000	MICROSOFT CORPORATION	57,816,000
3	666,414	AMERICAN INTL GROUP, INC	57,311,604
4	539,121	EXXON MOBIL CORPORATION	47,092,219
5	959,500	WAL MART STORES, INC.	46,823,600
6	378,700	IBM CORPORATION	42,793,100
7	499,500	FEDERAL NATIONAL MTG ASSN	42,532,425
8	803,102	CITIGROUP, INC.	42,435,910
9	932,300	PFIZER, INC.	37,338,615
10	701,352	AOL TIME WARNER, INC.	37,171,656

A complete list of portfolio holdings is available upon request.

Schedule of Fees and Commissions

Investment Fees	Average Assets Under Management	Fees	Basis Points
Investment Manager Fees			
Equity Managers	\$4,517,035,098	\$14,216,155	31
Fixed Income Managers	1,779,259,054	2,320,064	13
Private Equity Managers	169,578,269	3,439,923	203
Real Estate Managers	442,574,456	1,807,653	41
Total Investment Manager Fees	\$6,908,446,880	\$21,783,795	32
Other Investment Service Fees			
Custodian Fees		\$2,543,897	
Investment Consultant Fees		621,407	
Legal Fees		364,752	
Actuary/Audit Service Fees		396,259	
Total Investment Service Fees		\$3,926,315	6
Total Fees		\$25,710,110	37

Broker Commissions	Base Commission	Total Shares	Commission per Share
Credit Suisse First Corp.	\$201,456	4,481,613	0.04495
Merrill Lynch Pierce Fenner Smith, Inc.	187,815	7,984,362	0.02352
Morgan Stanley Int'l	182,502	5,129,115	0.03558
Salomon Brothers Int'l	179,624	6,821,344	0.02633
Goldman Sachs & Co.	144,556	5,450,024	0.02652
Bear Stearns & Co., Inc.	143,378	3,223,989	0.04447
Goldman Sachs Int'l	142,482	5,621,601	0.02535
Citation Group	131,078	2,335,054	0.05613
Morgan Stanley & Co.	127,016	45,726,103	0.00278
Lehman Brothers, Inc.	118,355	3,074,031	0.03850
Salomon Smith Barney	116,571	2,919,888	0.03992
Merrill Lynch Int'l	116,012	10,700,189	0.01084
Morgan Grenfell	114,435	93,430,043	0.00122
Lehman Brothers	94,765	3,957,755	0.02394
Bear Stearns & Co., Inc.	86,704	21,221,028	0.00409
Credit Suisse First Corp.	85,503	2,138,952	0.03997
SBC Warburg	82,303	619,900	0.13277
Merrill Lynch Int'l	81,024	10,187,582	0.00795
Smith Barney, Inc.	76,571	1,756,606	0.04359
Jefferies & Co., Inc.	69,329	1,650,100	0.04201
Morgan J. P. Securities, Inc.	68,803	23,606,094	0.00291
SG Cowen Securities Corp.	67,196	1,478,436	0.04545
Credit Suisse First Corp.	67,001	4,438,773	0.01509
Kleinwort Benson Securities Ltd.	65,328	2,113,717	0.03091
Salomon Brothers, Inc.	64,585	13,762,058	0.00469
UBS Equities	62,040	1,869,616	0.03318
Warburg Dillon Read LLC	61,979	6,458,669	0.00960
James Capel	58,746	4,624,894	0.01270
Nomura Securities Int'l	56,611	1,779,235	0.03182
Montgomery Securities	56,205	1,066,400	0.05271
Other Brokers Under \$55,000	2,385,438	408,195,546	0.00584
Total Broker Commissions	\$5,495,408	707,822,717	0.00776

A complete list of broker commissions is available from PERSI. PERSI does not require that investment managers use specific brokers.

STATEMENT OF INVESTMENT POLICY AND GUIDELINES

I. Introduction

The Retirement Board of the Public Employee Retirement System of Idaho (“the Board”)(“the System”) hereby establishes its Statement of Investment Policy for the investment of the trust funds (“the Trust”) in accord with Idaho Code, Chapter 13, Title 59.

II. Statutory Requirements

The investment of the Trust will be in accord with all applicable laws of the State of Idaho.

A. Sole Interest of Beneficiaries

Investments will be solely in the interest of the participants and beneficiaries and for the exclusive purpose of providing benefits to the participants and their beneficiaries and defraying reasonable expenses of administration.

B. Prudent Investments

Investments will be made with the judgment and care under the circumstances then prevailing, which people of prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable outcome, as well as the probable safety of their capital. Investments will be diversified so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances, it is clearly prudent not to do so.

C. Fiduciary Duties

The Board and its agents, including staff, consultants, and investment managers, will discharge their duties with respect to the fund solely in the interest of the members and retired employees, and with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

III. Investment Goals

A. General Objective

1. Purpose

The purpose of the investment of Trust assets is to provide funds to meet the obligations of the Public Employees Retirement System of Idaho (PERSI) while incurring the appropriate amount of risk consistent with attaining that goal. The Board will invest the assets of the Trust so as to meet the projected obligations of the System, and will reduce risk through diversification of the assets of the Trust.

2. Considerations

In determining the returns needed by the System, the acceptable risk levels, and the allowable investments, the Board will consider:

- the effect of particular investments on the total portfolio,
- the purpose of the Plan,
- the diversification of the portfolio,
- liquidity needs and the current return relative to the anticipated cash flow requirements, and
- the projected return of the portfolio as it relates to the funding objectives of the Plan.

B. Specific PERSI return and risk objectives

1. Investment Returns

(a) Actuarial Assumptions

In projecting obligations and the returns needed to meet those obligations, the Board will consider studies performed by actuaries hired by the Board. The actuary uses an investment return assumption of 8% before fees and expenses in balancing projected obligations, projected contributions, and projected returns on assets. Assuming all of the actuarial assumptions are accurate, this 8% return will suffice to: (1) assure the payment of statutorily required benefits, which includes a 1% Cost of

Living Adjustment (COLA); and (2) maintain the reduction of the level of the unfunded liability on the scheduled amortization (one year at a time). The assumed 8% return will not be sufficient to fund either discretionary COLAs (2-6%), retroactive COLAs, or accelerate the amortization of the unfunded liability.

(b) Inflation and Salary Assumptions

This 8% rate assumes an inflation rate of 4.25% and an annual general state salary growth of 5.25%. To the extent that either inflation or salary growth are higher or lower than these rates, then the investment returns needed will also be higher or lower than the assumed 8%, although not on a 1:1 ratio. Consequently, the investment returns actually needed by the system do not have a nominal rate which can be determined with precision in advance — the 8% rate currently used by the actuary is only a general midpoint accurate over long (15-20) year periods and is only as accurate as are the inflation and salary assumptions.

(c) Relation to Funding Policy

As set out in the Board's funding policy, to the extent investment markets allow, it is the desire of the Board to provide discretionary COLAs and accelerate the amortization. It is also the goal of the Board to maintain a reasonable amortization of the unfunded liability, and not to exceed the 25-year amortization period set by statute. Therefore, it is the goal of the Board to set an expected rate of return above the actuarially assumed return so that (1) discretionary COLAs will have a reasonable chance of being consistently funded and (2) the scheduled amortization of the unfunded liability is not unreasonably jeopardized.

(d) Periodic Specific Return Goals

Because of the inflation sensitivity of both the returns needed by the system and the size of annual COLAs, an exact target return (either real or nominal) cannot be set in advance. Nonetheless, under most reasonable actuarial assumptions, PERSI has a relatively stable real return goal of between 4.75% - 5.25% if consistent funding of discretionary COLAs is included as an objective. Consequently, specific return goals for upcoming periods will be set out in the strategic asset allocations periodically adopted by the Board.

2. Investment Risk and Strategic Asset Allocations

(a) Diversification Among Asset Classes

In controlling the risk level that is appropriate for the Trust, the Board will diversify the assets of the Trust among various asset classes as the Board may from time to time adopt as appropriate asset classes. The specific asset classes to be used will be set in conjunction with the strategic asset allocation adopted from time to time by the Board.

(b) Review of Asset Classes and Asset Allocation

In setting strategic allocations, the Board will focus on assuring that the expected long-term returns will meet expected long-term obligations with the appropriate level of risk sufficient to meet those objectives. The Board will at least once every three years determine the appropriate asset classes for the investment of Trust assets and conduct asset allocation studies to help determine the long term strategic allocations among desired asset classes so as to meet long-term return objectives with the appropriate level of risk.

(c) Content of Strategic Asset Allocations

The strategic asset allocation will set out the asset classes to be used, the long-term strategic "normal" percentage of assets to be invested in each asset class, the short to intermediate term ranges that will be considered allowable temporary deviations from the strategic normal allocation, the investment risk and return expectations for each asset class, the numerical investment return and risk expected to be realized, and the relation of the expected investment return to the real and actuarially assumed investment return.

(d) Strategic Policies

In addition to asset allocation, the Board may from time to time adopt strategic policies. "Strategic policies" are actions by the Board to invest in asset types that have not been singled out as "asset classes" in the asset allocation process, to overweight particular sectors within an asset class, or to employ particular strategies in the investment of Trust assets. The purpose of these actions is either to increase the return above the expected return or to reduce risk. Examples of types of strategic policies include: a tilt towards small capitalization stocks in U.S. equity allocations; a tilt toward mortgage exposures in fixed

income; hedging international currency exposures through a currency overlay program, and adding international emerging markets exposure in international equities.

IV. Investment Structure

A. Overall Structure

In making individual investment policy decisions, the Board will have as an overall goal a flexible, simplified structure with clear roles and accountability.

1. Board Ultimately Responsible

The Board is ultimately responsible for all investment activities. In exercising this responsibility, the Board will hire investment personnel and agents and delegate various investment functions to those personnel and agents. Where the Board does not delegate investment powers or duties, the Board will either satisfy itself that it is familiar with such matters, or will retain persons who are familiar with such matters to consult or assist the Board in the exercise of those responsibilities. Where the Board delegates a responsibility, it will be delegated to a person who is familiar with such matters, and the Board will monitor and review the actions of those to whom responsibilities are delegated.

2. General Roles and Responsibilities of Board and Agents

The Board will favor a structure that accommodates a citizen Board and a small staff. The Board and staff will concentrate their activities on

- strategic decisions, primarily concerning asset allocation and strategic policies;
- adjusting the mix between passive and active managers depending on, among other considerations, near-term concerns regarding the U.S. and other capital markets; and
- delegating and monitoring all other activities, including hiring and monitoring investment managers.

The Board will rely on outside agents, and primarily investment managers, to be responsible for non-strategic decisions. This responsibility includes those investment decisions with shorter-term consequences such as the best near-term securities, regions, asset types, or asset classes.

B. Direct (Non-Delegated) Responsibilities of the Board

1. Specific Responsibilities

The Board will be directly responsible for

- Setting investment policy,
- Determining the investment structure of the Trust,
- Determining the asset classes to be utilized,
- Setting the strategic asset allocation,
- Determining strategic policies;
- Hiring agents to implement the strategic asset allocation;
- Hiring agents to implement strategic policies; and
- Monitoring the compliance of those agents with the investment policies and strategic allocations determined by the Board.

2. Delegation and Monitoring of Specific Investment Activities

The Board will normally delegate investment decisions concerning specific securities or assets, or the tactical allocations of assets among asset types, to outside agents. The Board will retain direct responsibility for the monitoring of the activities of those agents through periodic reports from its staff or consultants. The Board may choose to exercise direct investment responsibility if unusual market conditions or other circumstances so indicate.

C. Employees, Consultants, and Advisors to the Board

1. Investment Staff

(a) Duties of Chief Investment Officer and Other Staff

The Board will hire a Chief Investment Officer and such other staff as it considers appropriate who will be generally responsible for the oversight of the investment of Trust assets, and, as part of that overall responsibility, will: (1) supervise, monitor, and evaluate the performance of the investment managers hired by the Board to assure compliance with investment policy and individual guidelines; (2) assist the Board in developing and adjusting investment policy, including reviewing and modifying the asset allocation as conditions warrant; (3) research current market conditions, evaluate new products, and seek out new approaches to improve portfolio return, reduce risk, and reduce costs and fees; (4) work with the consultants, custodians, investment managers, and other agents in the performance of their assigned duties; and (5) assist the Board with education and other efforts to promote good decision making. Except in special circumstances, PERSI staff will not be responsible for the investment, purchase, or sale of specific assets.

(b) Allocation of New Net Contributions

The Chief Investment Officer shall allocate new net contributions to the system among investment managers in accordance with the strategic and tactical ranges established by the Board in the strategic asset allocation. The Chief Investment Officer shall report to the Board regularly on the allocation of new net contributions.

(c) Tactical Asset Allocation

With prior notice to the Board, the Chief Investment Officer may shift assets among managers (including between passive and active managers) as long as the asset allocation is maintained within the strategic ranges. If conditions do not permit giving prior Board notice, the Chief Investment Officer, in conjunction with the advice and consent of the general consultant to PERSI, is authorized to move assets among investment managers within the strategic ranges established by the Board. If such action is taken, the Chief Investment Officer shall notify the Chairman of the Board as soon as is practical either that action is contemplated or has been taken, as circumstances warrant.

(d) Minimum Qualifications of Chief Investment Officer

The Chief Investment Officer shall at least: (a) have a graduate degree in finance, law, business administration, or a related field, (b) be a Chartered Financial Analyst; or (c) have three or more years experience in the investment of trust assets.

2. Actuaries

The Board will hire an actuary to provide studies that will: (1) determine the long term obligations faced by the System through annual actuarial valuations, (2) set out return objectives or assumptions that will be sufficient to meet those obligations; and (3) provide reviews at least once every four years of the actuarial valuation process, including updating the projections and assumptions in light of the experience of the System. The Board will set its long-term return objectives after considering information provided by those studies.

3. Investment Consultants

The Board will hire a qualified independent consultant, whose relationship does not impose a conflict of interest with the Board or staff, to provide investment performance measurement at least quarterly with the report available to the Board within three months of the quarter end. The report will at least compare actual investment returns of the system — in total, by each asset class, and for each managed portfolio — with both the investment objectives of the system and a composite of returns of other institutional investors. The Board may hire other independent investment consultants as needed to assist the Board in the management of its investment activities, including, but not limited to: (1) performing asset allocation studies, and reviewing and recommending modifications of the asset allocation as conditions warrant; (2) assisting in monitoring the investment managers to assure they are in compliance with the investment policy and their individual guidelines; (3) performing manager evaluations and searches as may be necessary; and (4) assisting in the development and adjustment of investment policy. Except for consultants retained solely for purposes of performance measurement, consultants will be fiduciaries of the Trust.

D. Managers or Agents with Delegated Responsibilities

1. Custodian

(a) Responsibilities

The Board will hire custodians and other agents who will be fiduciaries of the Trust and who will assume full responsibility for

the safekeeping and accounting of all assets held on behalf of the Trust. Among other duties as may be agreed to, the custodian will be responsible for: (a) the receipt, delivery, and safekeeping of securities; (b) the transfer, exchange, or redelivery of securities; (c) the claiming, receipt, and deposit of all dividend, interest, and other corporate actions due the Trust; (d) the daily sweep of all uninvested funds into a cash management account or accounts; and, (e) the provision of reports to PERSI upon agreed time intervals that will include all purchases and sales of securities, all dividend declarations on securities held by the Trust, a list of securities held by the Trust, and a cash statement of all transactions for the account of the Trust.

(b) Authorization of Collective Investment Trusts

Assets of the Trust may be invested in any collective investment trust, which at the time of the investment provides for the pooling of the assets of plans described in Section 401(a) of the Internal Revenue Code of 1986, as amended, and which is exempt from Federal income tax. Assets of the Trust may be commingled with assets of other trusts if invested in any collective investment trust authorized by this policy. The provisions of the trust agreement, as amended by the trustee thereof from time to time, of each collective investment trust in which Trust assets are invested are by this reference incorporated as a part of the trust estate comprising the Trust. The provisions of the collective investment trust will govern any investment of Trust assets in that trust.

2. Investment Managers

The Board will hire investment managers who will be fiduciaries of the Trust and who will be responsible for the investment of Trust assets in specific securities or assets within or among the asset classes.

(a) Minimum Qualifications

Investment managers shall be registered with the Securities and Exchange Commission (unless they are banks or insurance companies exempted from such registration requirements), shall have been in the business of investment management at least two years (or the main personnel of the investment management firm shall have worked together in the business of investment management for at least two years), and shall have other United States pension fund assets under management.

(b) Guidelines

Investment Managers shall manage assets in accordance with additional guidelines established by contract and as may be added to or modified from time to time. The additional guidelines will contain minimum diversification requirements that must be followed by that manager. These guidelines will also set out the investment return expected to be achieved by that manager, and shall be linked to a benchmark that represents the passive index fund that would be used to replicate the manager's assignment.

(c) Responsibilities and Discretion

Subject to the restrictions set out in this policy or as may be set out in individual contracts or guidelines, an investment manager shall have full discretionary power to direct the investment, exchange, and liquidation of the assets entrusted to that manager. The manager shall place orders to buy and sell securities and, by notice to the custodian, cause the custodian to deliver and receive securities on behalf of the Trust.

(d) Corporate Governance

The Board, unless otherwise stated, will delegate the voting of proxies to the investment manager. The Board will adopt and from time to time modify a proxy voting policy. The Board will review the investment manager's policies governing the voting of proxies to assure consistency both with the policy of the Board and, to the extent feasible, among the various investment managers.

(e) Transactions and Brokerage

All securities transactions shall be executed by reputable broker/dealers or banks, and shall be on a best price and best execution basis.

3. Use of Passive and Active Managers

(a) Purpose and Use of Active Management

The Board recognizes that passive (index fund) investing has lower costs than active investing, with regard to both

management fees and transaction costs. Further, the Board also recognizes that there is uncertainty concerning whether active investing can generally outperform passive investing, particularly in the large, liquid, and efficient portions of the capital markets. Also, the Board has great confidence that a passive investment of assets in an efficient asset allocation will likely meet long-term (20-year) obligations.

Contribution rates and COLAs, however, are based on 1-5 year returns. The Board does have concern that over 1-5 year periods the ability consistently to fund COLAs and to keep contribution rates stable are in considerable jeopardy from two sources: (1) expected “normal” market fluctuations are such that annual returns will likely not meet hurdle rates approximately 40% of the time, with actual negative returns to be expected once every six years; and (2) that most of Trust assets under the strategic asset allocation will be invested in U.S. capital markets, and are thus vulnerable to poor U.S. returns.

One purpose of active management of Trust assets is to address these two concerns. Active managers will be hired for the purpose of providing greater stability of returns, and better returns, than would be achievable under purely passive management over rolling 3-5 year periods. Active managers will be responsible for timing of markets and the tactical allocation of assets among and within the capital markets (including between the U.S. and international markets).

In addition to providing extra returns, active managers will also be employed to smooth returns, provide higher long-term returns, provide protection in adverse markets, and to add exposure and additional diversification to the portfolio than that achievable solely through investment in passive indices representing the strategic asset allocation and strategic policies.

(b) Structure

In using outside managers, the Board will favor a structure using a reasonable number of managers with broad mandates and benchmarks. This preference will be implemented so as to achieve the following goals: to relieve the Board from making timing decisions in allocating assets among numerous specialized managers, to simplify the structure of the fund, and to reduce the number of active managers and thus expenses to the Trust.

Passive managers will be favored for the core, liquid, efficient markets (such as S&P 500 stocks and U.S. Government/Corporate bonds), and active managers will be favored for relatively inefficient markets (such as international emerging markets). Global managers will be used to provide flexibility in reacting to near-term concerns that may arise concerning any particular region or market, particularly the U.S. capital markets, and to provide an appropriate balance between efficient long-term asset allocations (which favor US assets) and near-term allocations (which have a greater preference for international assets) to meet the real (inflation adjusted) return needs of the System. Consequently, actual allocations to international equities in the overall portfolio from time to time may be above that in the strategic asset allocation due to the activities of the global equity managers. The actual exposure to international equities will be maintained within the strategic range unless there is prior review by the Board before those ranges are exceeded.

(c) Balance between Passive and Active Management

The balance between active and passive management will be set from time to time with the following considerations in mind: concentration of active investment efforts where there is the most potential for excess returns, implementation of views concerning the state of the U.S. and international capital markets, and reduction of fees and other costs.

(d) Monitoring Standards

Active managers will be monitored under two standards: First, over rolling 3-5 year periods managers will be expected to exceed, after fees, the benchmark index that represents the passive alternative to the mandate given the manager, and to rank in the top half of the universe of managers that best fits that manager's mandate. Second, over shorter periods of time, managers will be expected to maintain key personnel, a consistent style, and investment capability. Passive managers will be monitored on their ability to track their benchmark index over both short (1 quarter to one year) and long periods (3 to 5 year). The Board may consider other information it considers relevant, including composite manager indices, in determining whether to retain or terminate managers.

V. Asset Class Policies

A. U.S. Equities

1. Objective

The overall objective of the U.S. equity asset class is to obtain, over time, a return after fees that equals or exceeds the returns of the Wilshire 5000 Index, both absolutely and on a risk-adjusted basis.

2. Allowable Investments

Managers may invest in stocks that do not pay dividends. Managers may invest in equity securities outside of the Wilshire 5000 Index. Managers may use derivative securities for purposes of enhancing liquidity, reducing transaction or other costs, or partially hedging an existing exposure in the portfolio.

3. Manager Styles

Managers for this asset class may include index funds, style managers (such as value and growth), “core” managers, and global managers. Global managers are managers who may invest in securities located anywhere in the world, both within and outside of the United States.

4. Benchmarks

The Wilshire 5000 index will be the benchmark for the passive index funds, core managers, and global managers. Other style or capitalization indices maintained by a qualified organization may be used as the benchmark for style managers. Active U.S. equity managers are expected to exceed, over rolling 3-5 year intervals, the applicable benchmark by 75 basis points annually after fees, and to rank in the top 50th percentile of active managers with similar mandates.

B. International Equities

1. Objective

The overall objective of the International Equity Asset Class is to obtain, over time, a return after fees that equals or exceeds the returns of the Morgan Stanley Capital International Europe, Australia, and Far East (MSCI EAFE) Index (unhedged), or the FT Actuaries World ex U.S. Index, both absolutely and on a risk-adjusted basis.

2. Allowable Investments

Managers may invest in stocks that do not pay dividends. Managers may invest in American Depositary Receipts or American Depositary Shares. Managers may invest in equity securities of companies or in countries that are not included in the indices. Managers may use derivative securities for purposes of enhancing liquidity, reducing transaction or other costs, or partially hedging an existing exposure in the portfolio. Managers may, at their discretion, hedge the currency exposure of all or part of their portfolios. Managers may not overhedge their portfolio, although proxy hedging for purposes of liquidity and cost savings is allowed.

3. Manager Styles

Managers for this asset class may include index funds, general international managers, regional or specialized managers (such as emerging markets), and global managers. The Board may from time to time hire a currency overlay manager to hedge the currency exposure in those portfolios where managers do not actively or normally consider hedging their exposure.

4. Benchmarks

The MSCI EAFE Index (unhedged), or the FT Actuaries World ex U.S. (unhedged) will be the benchmark for the passive index funds, general international managers, and global managers. Regional or specialized indices (unhedged) maintained by a qualified organization may be used as the benchmark for other active managers. Active international equity managers are expected to exceed, over rolling 3-5 year intervals, the applicable benchmark by 75 basis points annually after fees, and to rank in the top 50th percentile of active managers with similar mandates.

C. Fixed Income

1. Objectives

The overall objective of the Fixed Income Asset Class is to obtain, over time, a return after fees that equals or exceeds the returns of the Lehman Brothers Aggregate Bond Index (Aggregate Bond Index) both absolutely and on a risk-adjusted basis.

The Fixed Income Asset Class shall consist of investments in mortgages and in both dollar and non-dollar fixed income securities. Mortgages shall consist of investments in mortgage-backed securities, and direct ownership of commercial mortgages through the Idaho Commercial Mortgage Program.

The objective of the non-mortgage fixed income securities is to obtain, over time, a return after fees that equals or exceeds the returns of the Lehman Brothers Government/Corporate Bond Index (Government/Corporate Bond Index) on a risk-adjusted basis. The overall objective of the mortgage securities is to obtain, over time, a return after fees that equals or exceeds the returns of the Lehman Brothers Mortgage Index (Mortgage Index) on a risk-adjusted basis.

2. Allowable Investments

Managers may invest in debt securities that do not pay interest. Active managers may invest in securities in companies or countries that are not included in the indices. Managers may use derivative securities for purposes of enhancing liquidity, reducing transaction or other costs, or partially hedging an existing exposure in the portfolio. Fixed income managers may, at their discretion and to the extent allowed by their contracts and guidelines, use currency forward or futures markets as may be considered appropriate to implement fixed income strategies.

3. Manager Styles

Managers in this asset class may include index funds, domestic bond managers, specialized managers, and global managers.

4. Benchmarks

The Government/Corporate Index or Aggregate Index will be the benchmark for all non-mortgage fixed income managers. The Mortgage Index will be the benchmark for all mortgage managers. The Aggregate Index will be the benchmark for the asset class. Active fixed income managers are expected to exceed, over rolling 3-5 year intervals, the applicable benchmark by 25 basis points annually after fees, and to rank in the top 50th percentile of active managers with similar mandates.

D. Real Estate

1. Objectives

Private equity real estate investments will be considered part of the U.S. Equity asset class. The overall objective of private equity real estate investments is to attain a 6% real rate of return overall, over a long-term holding period, as long as this objective is consistent with maintaining the safety of principal. The 6% real rate of return includes both income and appreciation, is net of investment management fees, and is net of inflation as is measured annually by the Consumer Price Index. Over a short-term basis, the objective is to earn a nominal minimum income yield of 6% on each individual investment, or inflation plus 3%, whichever is greater.

2. Allowable Investments

Allowable private equity real estate investments will include open-end and closed-end commingled real estate funds, publicly traded real estate investment trusts, and direct real estate investments originated by selected real estate advisors who structure similar investments with other institutional investors. The real estate asset sector will not include solely debt obligations; in particular, straight mortgage interests will be considered part of the fixed income asset class.

3. Need for Income Component of Return

Upon acquisition, each real estate investment must have as a goal the expectation of production of annual income measured by realized return and not capital appreciation. Thus, a significant proportion of income producing properties and not purely development properties should be the objective of any commingled fund acquired.

4. Protection of the Trust

Investment vehicles should be chosen that will protect the Trust, including provision for investments that do not contain debt or liability with recourse beyond the Trust commitment to the related business entity, provision for inspection and evaluation of environmental hazards prior to the purchase of any specific property, and the provision of insurance coverage to protect against environmental and natural hazards.

5. Reporting

A comprehensive reporting system for individual investments or funds will be maintained so that poorly performing investments and deficiencies in portfolio diversification can be identified and active portfolio management facilitated. Investment managers shall be required to present opinions of fair market value as part of quarterly and annual reporting requirements, and audited financial statements shall be required at least annually for each investment entity.

E. Alternative Investments

1. Definition and Board Approval

The Board may from time to time authorize the investment of Trust assets in entities or structures that do not fit the asset descriptions listed above. Examples of such investments are venture capital partnerships, private equity, leveraged buy-out funds, private debt, and direct ownership of individual assets such as oil and gas partnerships. These investments shall only be entered into with the specific approval by the Board or a subcommittee given specific delegation by the Board of each investment vehicle, or investment manager.

2. Objectives and Benchmarks

If the alternative investment is an equity investment, the objective for the investment will be to exceed, over time and after fees, the return achieved by the Wilshire 4500 Index times 1.35. If the alternative investment is a debt investment, then the objective will be to exceed, over time and after fees, the returns achieved by the Lehman Brothers Government/Corporate Index plus 3%. It is recognized that these investments will experience greater volatility than the comparable publicly traded securities and indices.

3. Asset Allocation

For purposes of asset allocation, alternative equity investments will be treated as part of the U.S. equity asset class, and alternative debt investments will be treated as part of the fixed income asset class.

STRATEGIC ASSET ALLOCATION

Asset Class	Expected Return	Expected Risk	Strategic Normal	Strategic Ranges	Allocation Year Ended June 30, 2001
U.S. Equity	9.8%	18%	54%	44% - 57%	46%
International Equity	10.6%	22%	15%	12% - 25%	23%
Total Equities			69%	66% - 75%	69%
Fixed Income	6.0%	7%	30%	27% - 33%	28%
Cash	4.0%	1%	1%	0% - 5%	3%

Total Fund	Expected Return	Expected Inflation	Expected Real Return	Expected Risk
Actuary	8.00%	4.25%	3.75%	n/a
Portfolio	8.72%	3.75%	4.97%	13.00%